



MEYERS NORRIS PENNY LLP

April 1, 2011

International Accounting Standards Board  
1<sup>st</sup> Floor  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Financial Instruments: Impairment Exposure Draft (supplement to ED/2009/12:  
Financial Instruments: Amortized Cost and Impairment)**

Thank you for the opportunity to comment on the above noted document. We have reviewed the Exposure Draft (ED) and provided our comments below.

Overall, we agree with the International Accounting Standards Board's (IASB) proposal to replace the incurred loss impairment model with an expected loss impairment model for open portfolios of financial assets measured at amortized cost.

In particular, we agree that the proposals for financial assets in the 'bad book' are appropriate; however, for financial assets in the 'good book', we encourage the IASB to consider an approach to measurement and recognition of the impairment allowance that employs a single calculation. The approach described in the ED requiring two separate calculations – one for the 'time-proportional' amount, and the other for the 'floor' amount – adds a significant level of complexity for the preparer of the financial statements, and we are concerned that this complexity will not necessarily result in better or more useful information to the users of the financial statements.

More specifically, we believe that for financial assets in the 'good book' it is appropriate to record an impairment allowance based on the credit losses expected to occur in the foreseeable future. An estimate of losses expected to occur in the foreseeable future based on historical data, current economic conditions and future expectations will provide an adequate amount to prevent delayed recognition, while also taking into account the timing and risk of the credit losses. This would ensure only those losses which are estimable with an appropriate degree of certainty are recognized, thereby providing the most useful information to users. We are in agreement that the 'foreseeable future' should be for a minimum period of 12 months, as we believe that reasonable and supportable information should be available for at least this time period.

Conversely, the 'time-proportional' calculation proposed, which requires an estimate of the remaining lifetime expected credit losses, may not provide reliable information to users. In some situations, estimates might be required for a time period which is beyond that for which reasonable and supportable information exists. Therefore, the 'time-proportional' calculation has potential to incorporate a degree of measurement uncertainty that may be inappropriately high for a reasonable estimate that is included in financial statements and subject to audit.

Lastly, we think it would be appropriate to require the impairment allowance to be based on discounted amounts. Application of an appropriate discount rate to the expected loss amount calculates a current estimate of value for expected future losses that incorporates the anticipated timing and likely risks associated with those future losses. We believe this present value of future expected losses is likely to be most relevant to the users of the financial statements. In addition,



not permitting entities a choice of using either discounted or undiscounted amounts will improve comparability amongst entities.

On a related note, we would like to make a general comment regarding the financial instruments project as a whole. While we understand the magnitude of the financial instruments project, it is difficult to visualize the sufficiency of the final IFRS 9 standard after reading the related exposure drafts, each in isolation, over an extended period of time. We eagerly anticipate the release of an exposure draft of the comprehensive final standard once all phases have been completed in order to allow us to conceptualize how the various principles will fit together.

We are pleased to offer our assistance to the IASB in further exploring issues raised in our response or in finding alternative solutions to meet the needs of financial statement users.

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Yours truly,

**MEYERS NORRIS PENNY LLP**

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